

CHAPTER 3

GENERAL STANDARDS

INTRODUCTION

3.1 This chapter prescribes general standards and provides guidance for performing financial audits, attestation engagements,¹ and performance audits. These general standards concern the fundamental requirements for ensuring the credibility of auditors' results. Credibility is essential to all audit organizations performing work that government leaders and other users rely on for making decisions, and is what the public expects of information provided by auditors. These general standards encompass the independence of the audit organization and its individual auditors; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of audit staff, including their continuing professional education; and the existence of quality control systems and external peer reviews.

3.2 These general standards provide the underlying framework that is critical in effectively applying the field work and reporting standards described in the following chapters, in performing the detailed work associated with the assignment, and in preparing related reports and other products. Therefore, these general standards are required to be followed by all auditors and audit organizations, both government and nongovernment, performing work under generally accepted government auditing standards (GAGAS).

¹See chapter 6 for an additional general standard auditors should follow when performing an attestation engagement.

INDEPENDENCE

[Refer to Amendment No. 3, Independence. The following paragraph numbers will change accordingly.]

PROFESSIONAL JUDGMENT

3.3 The second general standard is:

Professional judgment should be used in planning and performing audits and attestation engagements, and in reporting the results.

3.4 This standard requires auditors to observe the principles of serving the public interest and maintaining the highest sense of integrity, objectivity, and independence in applying professional judgment² in all aspects of their work. This standard also imposes a responsibility upon each auditor within the audit organization to observe GAGAS. If auditors hold themselves out as following GAGAS, regardless of whether they are required to follow such standards, they need to justify any departures from them.

3.5 Auditors should use professional judgment in determining the type of assignment to be performed and the standards that apply to the work; establishing the scope of work; selecting the methodology; determining the type and amount of evidence to be gathered; and choosing the tests and procedures for their work. Professional judgment also should be applied in performing the tests and procedures and in evaluating and reporting the results of the work.

²Professional judgment is synonymous with due professional care as defined in the American Institute of Certified Public Accountants (AICPA) standards. While the principles of serving the public interest and maintaining the highest sense of integrity, objectivity, and independence are not explicitly stated in the AICPA's due professional care standard, these principles serve as the framework for all AICPA rules and standards.

3.6 Professional judgment requires auditors to exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of evidence. Auditors use the knowledge, skills, and experience called for by their profession to diligently perform, in good faith and with integrity, the gathering of evidence and objective evaluation of the competency and sufficiency of evidence. Since evidence is gathered and evaluated throughout the assignment, professional skepticism should be exercised throughout the assignment.

3.7 Auditors neither assume that management is dishonest nor assume unquestioned honesty. In exercising professional skepticism, auditors should not be satisfied with less than persuasive evidence because of a belief that management is honest.

3.8 The exercise of professional judgment allows the auditor to obtain reasonable assurance that material misstatements or significant inaccuracies in data will be detected if they exist. Absolute assurance is not attainable because of the nature of evidence and the characteristics of fraud. Therefore, an audit or attestation engagement conducted in accordance with GAGAS may not detect a material misstatement or significant inaccuracy, whether from error or fraud. Accordingly, while this standard places responsibility on each auditor and audit organization to exercise professional judgment in planning and performing an assignment, it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the individual auditor or the audit organization.

COMPETENCE

3.9 The third general standard is:

The staff assigned to perform the assignment should collectively possess adequate professional competence for the tasks required.

3.10 This standard places responsibility on audit organizations to ensure that each assignment is performed by staff who collectively have the knowledge, skills, and experience necessary for that assignment. Audit organizations should have a process, such as a human capital system, for recruitment, hiring, continuous development, and evaluation of staff to assist the organization in maintaining a workforce that has adequate competence.

3.11 The competencies discussed below apply to the knowledge, skills, and experience of audit organizations as a whole and not necessarily to each individual auditor. An organization may need to employ individuals or hire subject matter experts who are knowledgeable, skilled, or experienced in such areas as accounting, statistics, law, engineering, audit design and methodology, information technology, public administration, economics, social sciences, or actuarial science.

Technical Knowledge and Competence

3.12 Staff members conducting audits and attestation engagements under GAGAS should collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on an assignment. Auditors should possess

- a.** knowledge of government auditing standards applicable to the type of work they are assigned and the education, skills, and experience to apply such knowledge to the work being performed;
- b.** knowledge of the specific environment in which the audited entity operates and the subject matter under review;
- c.** skills to communicate clearly and effectively, both orally and in writing; and
- d.** skills appropriate for the work being performed. For example:

- (1) if the work requires use of statistical sampling, the staff or consultants to the staff should include persons with statistical sampling expertise;
- (2) if the work requires extensive review of information systems, the staff or consultants to the staff should include persons with information technology expertise;
- (3) if the work involves review of complex engineering data, the staff or consultants to the staff should include persons with engineering expertise; or
- (4) if the work involves the use of specialized audit methodologies or analytical techniques, such as the use of complex survey instruments, actuarial-based estimates, or statistical analysis tests, the staff or consultants to the staff should include persons with expertise in those methodologies.

3.13 The following additional competencies are needed for financial audits.

a. Auditors should be knowledgeable in generally accepted accounting principles and the AICPA's generally accepted auditing standards for field work and reporting and the related statements on the standards (SASs) when performing a financial audit and should be competent in applying these standards and SASs to the task assigned.

Similarly, when performing an attestation engagement, auditors should be knowledgeable in the AICPA's general attestation standard related to criteria, and the AICPA's attestation standards for field work and reporting and the related statements on the standards for attestation engagements (SSAEs), and should be competent in applying these standards and SSAEs to the task assigned.

b. Public accountants engaged to perform financial audits or attestation engagements should be (a) licensed certified public accountants or persons working for a licensed certified public accounting firm, or (b) public accountants licensed on or before

December 31, 1970, or persons working for a public accounting firm licensed on or before December 31, 1970.³

Continuing Professional Education

3.14 Auditors performing work under GAGAS need to maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work under GAGAS should complete, every 2 years, at least 80 hours of CPE which directly contributes to the auditor's professional proficiency to perform such work. At least 20 hours should be completed in any 1 year of the 2-year period.

3.15 Continuing education may include such topics as developments in audit standards and methodology, accounting, assessment of internal control, principles of management or supervision, information systems management, statistical sampling, financial statement analysis, evaluation design, and data analysis. It may also include subjects related to specific fields of work, such as public administration, public policy and structure, industrial engineering, finance, economics, social sciences, and information technology.

3.16 In addition, auditors responsible for planning or directing an assignment, performing substantial portions of the field work,⁴ or reporting on the assignment under GAGAS should complete at least 24 of the 80 hours of CPE in subjects directly related to the government environment and to government auditing. If the audited entity operates in a specific or unique environment, auditors should receive CPE that is related to that environment.

³Accountants and accounting firms meeting these licensing requirements should also comply with the applicable provisions of the public accountancy law and rules of the jurisdiction(s) where the audit is being conducted and the jurisdiction(s) in which the accountants and their firms are licensed.

⁴Auditors are considered responsible for "conducting substantial portions of field work" when, in a given CPE year, time chargeable to audits and attestation engagements following GAGAS is 20 percent or more of their total chargeable time.

3.17 The audit organization is responsible for ensuring that auditors meet the continuing education requirements. The audit organization should maintain documentation of the CPE completed. GAO has developed guidance pertaining to CPE requirements to assist auditors and audit organizations in exercising professional judgment in complying with the CPE requirements.⁵

3.18 External consultants and internal experts and specialists should be qualified and maintain professional competence in their areas of expertise and/or specialization. However, they are not required to meet the above CPE requirements unless they are responsible for following GAGAS in planning or directing the assignment, performing substantial portions of field work, or reporting on the assignment.

QUALITY CONTROL AND ASSURANCE

3.19 The fourth general standard is:

Each audit organization performing assignments in accordance with GAGAS should have an appropriate internal quality control system in place and should undergo an external peer review.

3.20 The internal quality control system established by the audit organization should provide reasonable assurance that it is following (1) adequate quality control policies and procedures, and (2) applicable government auditing standards. The internal quality control system should include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied.

⁵Interpretation of Continuing Education and Training Requirements, April 1991, Government Printing Office stock number 020-000-00250-6.

3.21 The nature and extent of an audit organization's internal quality control system depends on a number of factors, such as its size, the degree of operating autonomy allowed its personnel and its audit offices, the nature of its work, its organizational structure, and appropriate cost-benefit considerations. Thus the systems established by individual organizations will vary as will the need for, and extent of, their documentation of the systems. However, each organization should prepare appropriate documentation to demonstrate compliance with its policies and procedures for its system of quality control.

3.22 Audit organizations performing assignments in accordance with GAGAS should have an external peer review conducted at least once every 3 years by reviewers independent of the organization being reviewed.⁶ The external peer review should determine whether the organization's internal quality control system is in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable government auditing standards are being followed.

3.23 An external peer review under this standard should meet the following requirements.

a. Individuals conducting peer reviews of an audit organization's system of quality control should have thorough knowledge of GAGAS and of the government environment relative to the work being reviewed.

b. Reviewers should be independent (as defined in GAGAS) of the audit organization being reviewed, its staff, and the assignments selected for review. An organization is not permitted to review the organization that conducted its most recent external peer review. Also, the employing organization of the peer reviewers should

⁶Audit organizations should have an external peer review conducted within 3 years from the date they start (that is, start of field work) their first assignment in accordance with GAGAS. Subsequent external peer reviews should be conducted every 3 years. Audit organizations should generally maintain their review year from review to review. Any extensions of these time frames to meet the external peer review requirements can only be granted by GAO and should only be requested for extraordinary circumstances.

have received an unqualified opinion on the review of their organization's system of quality controls.

c. Reviewers should have knowledge and training on how to perform a peer review and should use professional judgment in conducting and reporting the results of the review.

d. This review should include a review of the organization's internal quality control policies and procedures, reports, audit documentation, and other necessary documents (for example, independence statements, outside employment requests, financial disclosure reports, and CPE documentation). The review should also include contacts with various levels of the reviewed organization's professional staff to assess their understanding of and compliance with relevant quality control policies and procedures.

e. Reviewers should use one of the following approaches to selecting assignments for review: (1) select assignments that provide a reasonable cross section of the assignments performed by the reviewed organization in accordance with GAGAS or (2) select assignments that provide a reasonable cross section of the reviewed organization's work subject to quality control requirements, including one or more assignments performed in accordance with GAGAS.

f. The review should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed audit organization's system of quality control was complied with to provide the organization with reasonable assurance of conforming with professional standards in the conduct of its work. Reviewers may scale back the peer review procedures based on the reviewers' evaluation of the adequacy and results of the reviewed organization's monitoring efforts.

g. Reviewers should prepare a written report(s) communicating the results of the external peer review. The report should indicate the scope of the review, including

any limitations thereon, and should express an opinion on whether the system of quality control of the reviewed organization was in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable government auditing standards are followed. The report should also describe the reason(s) for any modifications to the opinion. When there are matters that resulted in a modification to the standard report, reviewers should report a detailed description of the findings and recommendations to enable the reviewed organization to take appropriate actions. To help users of the peer review report understand the peer review process, each report should be accompanied by an attachment describing the process, including how peer reviews are planned and performed.

3.24 Audit organizations seeking to enter into a contract to perform an assignment in accordance with GAGAS should provide their most recent external peer review report⁷ to the party contracting for the audit or attestation engagement. Information in the external peer review report often would be relevant to decisions on procuring audit or attestation engagement services.

3.25 Auditors who are relying on another audit organization's work should request a copy of the audit organization's peer review report, and the audit organization should provide the peer review report when requested. Audit organizations also should transmit their external peer review reports to appropriate oversight bodies. It is also recommended that the report be made available to the public in a timely manner.

⁷The term "report" does not include separate letters of comment.